HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Windsor CMA

CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2014

Highlights

- Housing starts will increase slightly in 2014 and 2015.
- Home sales through the MLS® will gradually recover from the lower sales in the first quarter of 2014, but end the year lower than in 2013.
- The resale home market will be balanced with slight price growth.
- Rental apartment vacancy rates will continue to fall.

Figure 1

Source: CMHC (Starts Survey); f = CMHC Forecast ; SAAR = Seasonally Adjusted Annualized Rate

The forecasts included in this document are based on information available as of April 30, 2014.

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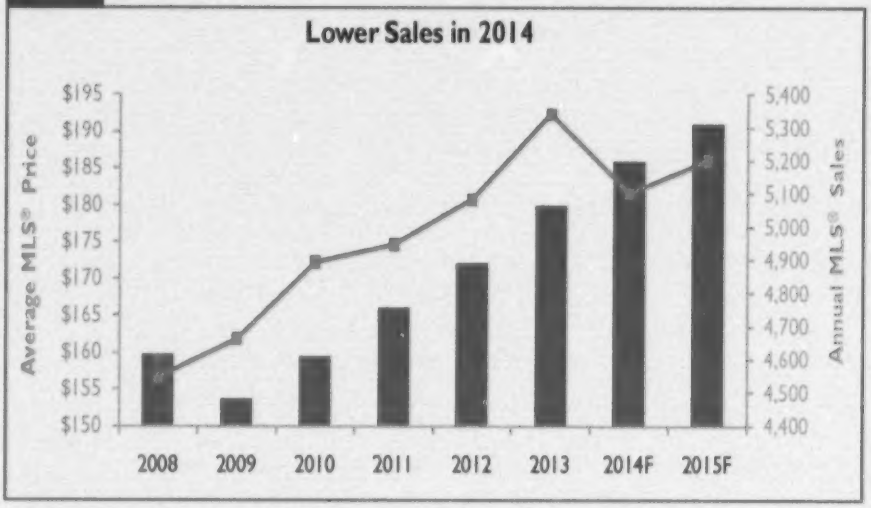
New Home Market: Total Housing Starts to Increase

New residential construction in the Windsor Census Metropolitan Area (CMA) will be slightly higher in both 2014 and 2015. Starts will reach 765 in 2014 and 810 in 2015. Growth in both single-detached and row construction will boost overall starts. Apartment starts will remain low in the next two years. Several factors, including household growth and income growth, will support the increasing demand for new homes.

Single-detached new construction will increase at a faster pace than total starts. Strong demand for detached homes and availability of serviced lots will factor into this increase. Demand is impacted by employment growth, prices, and the state of the resale market. Slow employment growth may delay some home purchases, but relatively low prices and a tight resale market will entice households to buy new. Supply will be impacted by higher construction and material costs. Move-up buyers with families are attracted to the larger homes away from the core. Increased employment for those in the 45-64 age group will also support this move-up buyer demand. The average price of a single-detached home will increase by 1.4 per cent in 2014 and 1.5 per cent in 2015 as rising disposable incomes enable buyers to purchase more expensive homes.

Strong demand for townhouses will result in increased starts in the next two years. Townhouse starts will be boosted by retirees and young households looking for a more maintenance-free lifestyle. A demographic shift to smaller households will also support this townhouse demand. Townhouses are a more affordable option to single-detached homes for those households desiring a new home, but with more modest incomes. Apartment construction will again be limited by the high vacancy rate and the strong preference for ground-orientated homes.

Figure 2



Source: CREA; CMHC Forecast
(MLS® is a registered trademark owned by the Canadian Real Estate Association)

Resale Market: Slightly Lower Demand in 2014

Existing homes sales in Windsor-Essex will decrease by 4.5 per cent in 2014, but move slightly higher in 2015. After a slow start to 2014 due to the harsh winter conditions, resale activity will increase through the rest of the year, reaching 5,100 sales by the end of the year. Population growth through positive net migration and slight employment gains will support this level of housing demand. More jobs do not necessarily mean higher demand. Many of the jobs created in Windsor in the past year were part-time and for those in the 15-24 age group. Job losses occurred for those in the 25-44 age group. Some of those in the 25-44 age group are first-time buyers who primarily buy in the resale market. Affordable homes support the housing market in Windsor-Essex. Windsor remains the most affordable of any Census Metropolitan Area (CMA) in Ontario. The estimated monthly carrying cost of an average priced home in Windsor was just over $1,000 (5% down, including mortgage insurance) compared to the average two-bedroom rent of $788. For comparison, the estimated monthly carrying cost in London was approximately $1,400.

Recent price growth will encourage more homeowners to list their homes for sale in 2014. For the first time in several years, new listings, a measure of supply, increased slightly in 2013. More homeowners took advantage of equity gains in their homes to put their home on the market and move to a home more closely aligned with their current needs. As with sales, new listings took a hit in the first quarter of 2014 due to the never-ending winter. However, new listings will trend higher for the rest of the

year. With more choice and slightly less demand, the sales-to-new listings ratio will remain in balance which will limit upward price pressure. Moderate priced homes will be in demand, both from those first-time buyers still in the market and also from downsizing seniors. The average price of a resale home will increase by slightly more than three per cent to $186,000 in 2014 and continue to increase in 2015. The relatively low average price for homes in Windsor-Essex will continue to support demand.

Rental Market: Vacancy Rates to Decline Again in 2014

The apartment vacancy rate in the privately-initiated rental market will decline to five per cent in 2014 and further to 4.5 per cent in 2015. While demand increases, the supply of rental units does not. Virtually no new rental units have been completed in the Windsor CMA in a decade. With a lower vacancy rate, expect the average rent to increase in 2014.

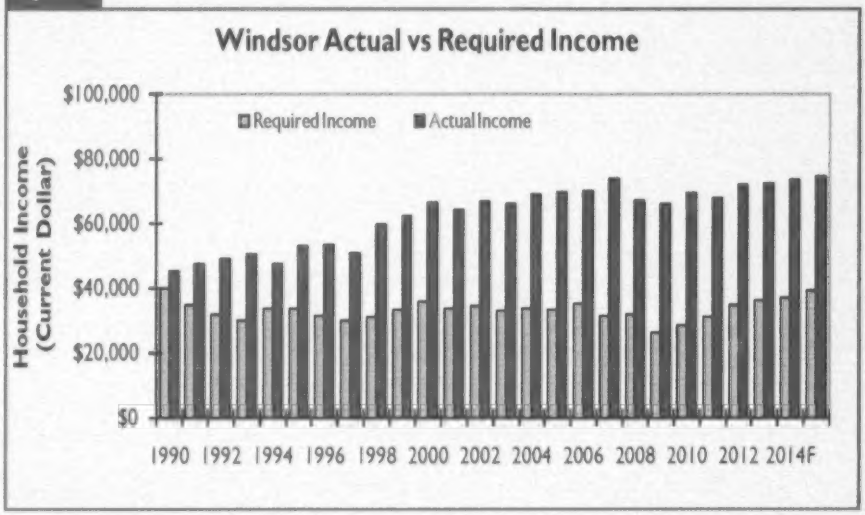
Demand for rental apartments will be driven by population growth through in-migration and employment gains for those 15-24. Students and seniors will also add to this rental demand. With improving employment for those 15-24, more young adults will be able to form households and move to rental accommodation. On the other hand, declining employment in the 25-44 age group will result in some renter households delaying their home purchases. The cost gap between renting and owning will continue to increase. First-time buyer movement out of rental will not be strong enough to offset the increased rental demand.

Figure 3

Source: CMHC

The population in the Windsor CMA will continue to increase after several years of out-migration. Non-permanent residents and immigrants will be the driving force behind this population increase. Immigrants typically rent when they first come to Canada. Foreign student enrolment of the University of Windsor has increased adding to the number of non-permanent residents looking for rental accommodation. Demand for

Figure 4

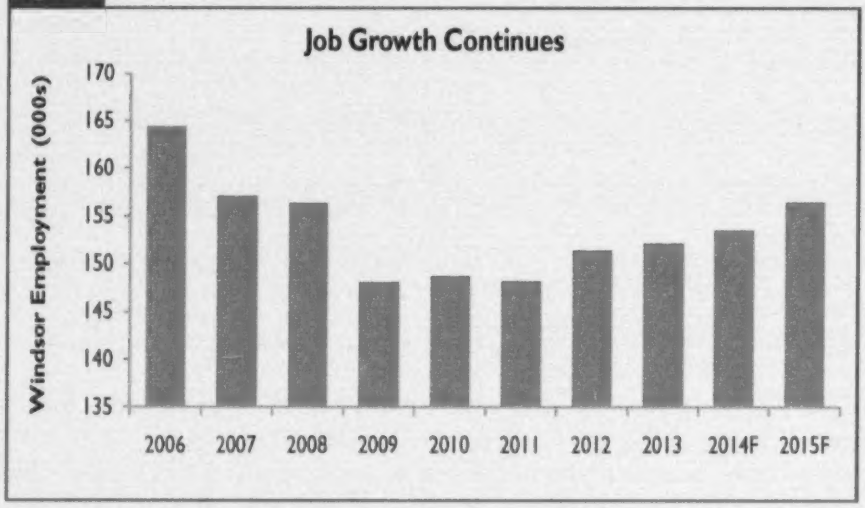


Sources: CMHC, Statistics Canada, CREA, f= CMHC Forecast. Required income is mortgage carrying costs divided by 0.32 to reflect the usual 32 percent gross debt service ratio. Mortgage carrying costs are calculated on the average MLS® price, a 10 per cent down payment, the fixed five-year mortgage rate and the longest available amortization.

rental accommodation will come from increased student enrolment at the University of Windsor and St. Clair College. Students are a traditional source of rental demand, both on and off-campus. Seniors will add to the rental demand. Seniors are the fastest growing segment of the population. Approximately 20 per cent of seniors live in apartments.

The average rent will increase modestly in both 2014 and 2015 to $795 and $805 respectively. Average rent increases will be constrained by the relatively high vacancy rate, slow income growth, and the 0.8 per cent Rent Review Guideline in 2014.

Figure 5



Source: Statistics Canada, CMHC forecast

Local Economy: Slight Employment Growth in 2014

Employment in the Windsor CMA will grow in 2014 and 2015. Employment growth will be 0.9 per cent in 2014 and double to 1.9 per cent in 2015. This growth will be driven by the ongoing economic recovery in the US and local infrastructure projects. Demand will increase for manufactured auto parts. Chrysler has announced that they will be investing $2 billion in the Windsor and Brampton plants. Goods-producing employment will continue to strengthen. Several local infrastructure projects worth $2 billion are currently underway in the Windsor CMA. These projects have and will boost construction employment. Construction employment will also be supported by the Detroit River International Crossing (DRIC) which should commence construction with the completion of the Herb Gray Parkway. Services sector employment has not fared as well and will continue to lag behind the goods-producing sector.

The unemployment rate in 2014 will decrease to 8.7 per cent and in 2015 to 8.5 per cent. Employment growth will outpace growth in the labour force. However, the number of people entering, rejoining or delaying retiring from the labour force keeps the unemployment rate elevated. After slow growth in wages in 2013, wage growth will pick up in 2014 as the economy continues to strengthen and higher wage employment sectors strengthen.

Mortgage Rate Outlook

Mortgage rates to see gradual and modest increases by the end of 2015, but will remain low by historical standards

Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to register gradual and modest increases by the latter part of the 2015 forecast horizon. This will lead to increases in mortgage rates. Despite this, mortgage rates will remain low and will continue to support housing market activity over the forecast horizon.

According to CMHC's base case scenario for 2014, the average for the one-year posted mortgage rate is forecast to be within 3.0 per cent to 3.50 per cent, while the average for the five-year posted mortgage rate is anticipated to be within 5.0 per cent to 5.5 per cent. For 2015, the average for the one-year posted mortgage rate is expected to rise and be in the 3.20 per cent to 4.25 per cent range, while the average for the five-year posted mortgage rate is forecast to be within 5.25 per cent to 6.0 per cent.

Mortgage rates		
1 Year	Q1 2014	3.14
	Change from Q1 2013	0.14
	2014 (F)	3.00 - 3.50
	2015 (F)	3.20 - 4.25
5 Year	Q1 2014	5.15
	Change from Q1 2013	-0.06
	2014 (F)	5.00 - 5.50
	2015 (F)	5.25 - 6.00

Source: Bank of Canada, CMHC Forecast
NOTE: Mortgage rate forecast is based on Q1 2014 data

Trends at a Glance

Key Factors and Their Effects on Housing Starts	
New Home Market	Housing starts will increase to 765 units in 2014 and then again to 810 units in 2015
Employment	Employment in Windsor will increase by 0.9 per cent in 2014 and 1.9 per cent in 2015. The goods-producing sector will lead this growth.
Income	Average incomes will grow by close to 1.5 per cent in 2014 and 2015.
Population	Population growth will come from immigration and a slight improvement in intra-provincial migration.
Resale Market	Sales will decline by 4.5 per cent to 5,100 in 2014 in increase by two per cent to 5,200 in 2015. The market will be balanced. A gradual increase in listings will moderate price gains.
Mortgage Rates	Short-term mortgage rates are expected to remain at historical low levels which will continue to support housing demand.

Forecast Risks

- The number of multiple housing units currently under construction in some local markets remains relatively high from a historical standpoint. As these units are progressively completed, inventories of newly completed and unabsorbed units may rise in the short to medium term, if they are not entirely absorbed by demand. Should the inventory of new units increase inordinately, builders may delay or reduce the size of some construction projects. This could lead to a sharper-than-expected moderation in starts.
- Canadians are still accumulating debt, albeit at a stable pace. Nonetheless, levels of household debt remain relatively high. With historically elevated house prices in some urban centres, these factors have made the Canada's economy more vulnerable to some economic shocks. For instance, if a sharp increase in interest rates or a large deterioration in employment were to occur, some of the more heavily indebted households could be forced to liquidate some of their assets, including their home. This could put downward pressure on house prices and, more generally, on housing market activity. Although this risk can arise in the shorter term, its impact would not be immediate on most indebted households because of the prevalence of fixed mortgage terms.
- The economies of China and other emerging-market countries remain vulnerable to tightening credit conditions and political uncertainty. This could affect the global economic recovery and world financial system. In turn, this could negatively impact demand for Canadian exports, contributing to a weakening of the Canadian economy and potentially lower demand for housing.
- A stronger than expected U.S. economic growth could positively impact Canadian economic growth, contributing to a higher level of activity in Canada's housing markets

Forecast Summary Windsor CMA Spring 2014							
	2011	2012	2013	2014f	% chg	2015f	% chg
New Home Market							
Starts:							
Single-Detached	466	536	535	575	7.5	600	4.3
Multiples	253	181	173	190	9.8	210	10.5
Semi-Detached	92	68	44	40	-9.1	40	0.0
Row/Townhouse	153	107	121	140	15.7	160	14.3
Apartments	8	6	8	10	25.0	10	0.0
Starts - Total	719	717	708	765	8.1	810	5.9
Average Price ($):							
Single-Detached	331,494	330,396	330,960	335,590	1.4	340,600	1.5
Median Price ($):							
Single-Detached	300,000	289,403	306,084	309,000	1.0	313,300	1.4
New Housing Price Index (% chg.)	-3.1	2.0	1.0	1.4	-	1.5	-
Resale Market							
MLS® Sales	4,946	5,082	5,341	5,100	-4.5	5,200	2.0
MLS® New Listings	9,749	9,380	9,395	9,500	1.1	9,900	4.2
MLS® Average Price ($)	166,008	172,047	179,820	186,000	3.4	191,000	2.7
Rental Market							
October Vacancy Rate (%)	8.1	7.3	5.9	5.0	-0.9	4.5	-0.5
Two-bedroom Average Rent (October) ($)	753	778	788	795	-	805	-
Economic Overview							
Mortgage Rate (1 year) (%)	3.52	3.17	3.08	3.00 - 3.50	-	3.20 - 4.25	-
Mortgage Rate (5 year) (%)	5.37	5.27	5.24	5.00 - 5.50	-	5.25 - 6.00	-
Annual Employment Level	148,200	151,400	152,200	153,600	0.9	156,500	1.9
Employment Growth (%)	-0.3	2.2	0.5	0.9	-	1.9	-
Unemployment rate (%)	9.6	9.8	8.9	8.7	-	8.5	-
Net Migration	-1,457	1,867	1,406	1,200	-	1,200	-

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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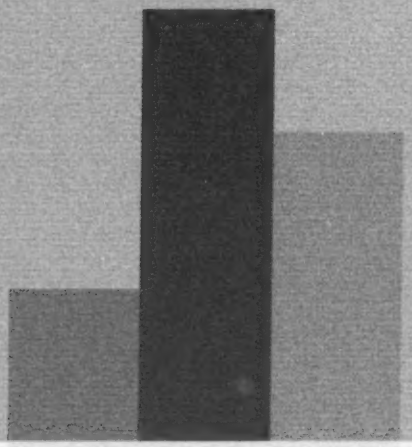

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